

Message Text

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PAGE 01 MANILA 01407 270736Z
ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 IO-13 L-03 H-01 PA-01
PRS-01 AGRE-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 EUR-12 /121 W
-----049028 280338Z /64

R 270153Z JAN 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 892
INFO AMEMBASSY COLOMBO

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USADB

FOR NAC AGENCIES

E.O. 11652: N/A
TAGS: EAID, EFIN, EAGR, CE
SUBJECT: SRI LANKA UREA FERTILIZER PROJECT

REF: (A) COLOMBO 5084 (B) MANILA 758

1. FOLLOWING IS STATEMENT OF ADB DIRECTOR OF OPERATIONS DR.
DAVID FISHER TO BOARD OF DIRECTORS ON JANUARY 26 REGARDING
SRI LANKA UREA FERTILIZER PROJECT:

QUOTE

ON SEPTEMBER 18, 1975 THE BANK EXTENDED A LOAN OF \$30
MILLION TO THE GOVERNMENT OF SRI LANKA TO FINANCE THE CON-
STRUCTION OF A UREA FERTILIZER PLANT NEAR COLOMBO. THE
PROJECT IS CO-FINANCED WITH KFW, GERMANY, THE GOVERNMENT OF
INDIA AND THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT.
CONSTRUCTION OF THE PROJECT HAS PROCEEDED WITH ONLY MINOR
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PAGE 02 MANILA 01407 270736Z

DELAYS AND THE PROJECT IS SCHEDULED TFOR COMPLETION IN MID-
1979.

ON DECEMBER 21, 1977 THE MINISTER OF FINANCE OF SRI LANKA,
MR. RONNIE DEL MEL, MADE A STATEMENT IN HIS PARLIAMENT
CALLING FOR THE CANCELLATION OF THE PROJECT ON THE BASIS
ESSENTIALLY OF NON-VIABILITY.

IN RESPONSE TO INQUIRIES THE BANK WAS INFORMED THAT THE SUGGESTION FOR CANCELLATION HAD BEEN MADE BY THE MINISTER OF FINANCE BUT THAT THE QUESTION OF THE PROJECT'S VIABILITY WAS YET UNDER STUDY BY AN INTERDEPARTMENTAL COMMITTEE CONSTITUTED BY THE GOVERNMENT. I WAS INSTRUCTED BY THE PRESIDENT TO PROCEED TO SRI LANKA WITH DR. KOEHLER OF THE PROJECTS STAFF TO ASCERTAIN THE EXACT POSITION. WE FOUND THAT, THOUGH THE COMMITTEE WAS YET AT WORK AND HAD NOT CONCLUDED ITS REPORT, THE MAJORITY VIEW SEEMED TO BE EMERGING THAT THE PROJECT WAS, IF ANYTHING, SOMEWHAT MORE VIABLE THAN AT THE TIME OF THE BANK'S APPROVAL. OUR OWN VIEWS WERE SIMILAR AND WE INFORMED THE FINANCE MINISTER AND OTHER CONCERNED AUTHORITIES INCLUDING THE MINISTER OF INDUSTRY OF THE LATEST COST INFORMATION RELATING TO THE PROJECT, OF THE LIKELY COST OF CANCELLING THE PROJECT AND OF OTHER IMPLICATIONS OF THE FINANCE MINISTER'S REPORTED STATEMENT.

IT IS EXPECTED THAT THE GOVERNMENT COMMITTEE WILL MAKE ITS REPORT TO THE CABINET BY THE END OF THIS WEEK AND THEREAFTER THE GOVERNMENT WILL TAKE A DECISION PROBABLY AT THE HIGHEST LEVEL. MEANWHILE GOVERNMENT OF GERMANY AND KFW HAVE TEMPORARILY SUSPENDED DISBURSEMENTS FOR THE PROJECT PENDING THE OUTCOME OF THE GOVERNMENT'S INQUIRY. THE KUWAIT FUND HAS NOT SUSPENDED DISBURSEMENTS IN VIEW LIMITED OFFICIAL USE

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PAGE 03 MANILA 01407 270736Z

OF THE VERY SHORT TIME UNTIL THE COMMITTEE COMPLETES ITS WORK.

AS THE SUSPENSION BY KFW AND THE VIEWS OF THE FINANCE MINISTER ABOUT THE PROJECT HAVE IMPORTANT SIGNIFICANCE, THE BANK IS IN CLOSE TOUCH WITH THE GOVERNMENT OF SRI LANKA AND WILL BRING FURTHER DEVELOPMENTS TO THE NOTICE OF THE BOARD. UNQUOTE.

2. FYI: IN RESPONSE TO U.S. ED'S INQUIRY AS TO ANY INFORMAL REACTION FROM MINISTER OF FINANCE, FISHER RESPONDED THAT, ALTHOUGH HE HAD ASKED FOR ANY SUPPORTING INFORMATION, NOTHING WAS FORTHCOMING. FISHER SAID HE BELIEVED MINISTER HAD REACTED QUICKLY ON BASIS OF POOR INFORMATION.
EDMOND

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